

Message Text

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SUBJ: AGRICULTURAL MACHINERY AND EQUIPMENT - SHORT DESK STUDY

REF : USDOC TELEPHONE REQUEST

INTRODUCTION - BECAUSE OF URGENT REQUEST BASIC INFORMATION
TO PERMIT PLANNING MOVE FORWARD, FOLLOWING BEING SENT USDOC
CHANNEL.

1. SUMMARY - WITH AN ITALIAN POSITIVE BALANCE OF FOREIGN TRADE
IN AGRICULTURAL MACHINERY AND EQUIPMENT, A LARGE DOMESTIC
INDUSTRY, STRONG COMPETITION FROM WITHIN THE EC, A MASS OF SMALL
FARMS AND CURRENT ANNUAL IMPORTS FROM THE US RUNNING AT
\$2.8 MILLION, ROUGHLY SEVEN PERCENT OF TOTAL, ITALY DOES NOT
IN OVERALL OFFER TREMENDOUS MARKET POTENTIAL FOR U.S. AGRICUL-
TURAL MACHINERY AND EQUIPMENT MANUFACTURERS. HOWEVER, IF
THE ITEMS DISPLAYED ARE NOVEV OR VARIATIONS ON STANDARD
EQUIPMENT THAT OFFER MULTIFUNCTIONAL POSSIBILITIES, A
SMALL LIVESTOCK-RELATED JEEP IN COLLABORATION WITH USDA AT
VERONA WOULD NOT ONLY OFFER POTENTIAL IN ITSELF BUT WOULD
PROVIDE A TESTING GROUND FOR EXPANDED COLLABORATION IN FUTURE
AT VERONA AND OTHER LOCATIONS. THE KEYS ARE IN FINDING
A MODUS VIVENDI BETWEEN USDA AND USDOC AND IN USDOC'S ABILITY
TO RECRUIT NEW-TO-MARKET FIRMS OFFERING NON TRADITIONAL,
EASILY MAINTAINED PRODUCTS AT REASONABLE PRICES.

2. BACKGROUND - EIGHTY PERCENT OF ITALY'S FARMS ARE LESS THAN
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TEN HECTARES (24.7 ACRES) AGAINST THE EC AVERAGE OF

TEN TO FIFTY (104 ACRES) SHECTARES. OVERALL AVERAGE IS ABOUT 12 HECTARES, BUT 8 OR LESS NOT UNCOMMON. TEN PERCENT OF ALL FARMS PRODUCE OVER FIFTY PERCENT ALL FARM PRODUCTS. AVERAGE ITALIAN ANNUAL FARM INCOME \$2,300, THIRD LOWEST IN EC. IN 1972 ITALY'S 1,363,000 FARMS PRODUCED \$11.9 BILLION, 5.4 PERCENT ABOVE 1971 IN VALUE AT CURRENT PRICES BUT DOWN 2.9 PERCENT IN PRODUCTION TERMS. OF TOTAL FARMS, 237,000 FOR ANIMAL HUSBANDRY, 621,000 IN PERMANENT CROPS (E.G. FRUIT) AND 487,000 IN ANNUAL CROPS, REMAINDER UNCLASSIFIED, OF PRODUCTION, LIVESTOCK REPRESENTED 42.3 PERCENT (\$5.1 BILLION), PLUS 3.13 PERCENT IN VALUE OVER 1971 BUT DOWN 4.9 PERCENT IN ACTUAL OUTPUT. FIELD CROPS REPRESENTED 39.5 PERCENT (\$4.7 BILLION), UP 3.1 PERCENT IN VALUE, DOWN 1.7 PERCENT IN OUTPUT. IRVAM, ROME RESEARCH INSTITUTE, REPORTED FARM INCOME DROPPED 2 TO 2-1/2 PERCENT IN 1972 DESPITE AN 8 PERCENT INCREASE IN AGRICULTURAL PRICES AND THAT NINETY PERCENT OF ALL FARM-ENTERPRISES OPERATED WITH DEFICIT THAT YEAR. NATIONAL FARMERS ASSOCIATION CONFAGRICOLTURA SAID FARM LOSSES RESULTED A) POOR GROWING SEASON; B) HIGHER COST FOR MACHINERY AND OTHER NEEDS AND C) RISE IN COST OF FARM LABOR BY TWENTY PERCENT. IN 1972-73 THERE SOME REVERSAL OF TREND AWAY FROM LAND DUE ECONOMIC RECESSION BUT FIVE MILLION HAVE LEFT AGRICULTURE IN PAST TWENTY YEARS AND AVERAGE AGE ITALIAN FARMER IS 55. CURRENT AGRICULTURAL WORKING POPULATION 3.6 MIL LION, TWO THIRDS INDEPENDENT, ONE THIRD EMPLOYED. ESTIMATES ARE THAT BY 1975 ONLY 45-50,000 IN AGES 18-29 ON FARMS. COMPLICATIONS FARM OPERATIONS RECENT YEARS ALSO INTRODUCED BY CONFUSION LAND REFORM SCHEMES AND POSSIBLE LAND RIGHTS ACQUIRED BY TENANT FARMERS. (FOR COMPREHENSIVE REVIEW SEE AGRICULTURES' QUOTE ITALY: AGRICULTURAL SITUATION UNQUOTE OF JANUARY 26, 1973.)

3. PRODUCTION AND MARKET - ITALY HAS LARGE NUMBER OF MANUFACTURERS MANY SMALL OR MEDIUM-SIZE WHICH ARE, LIKE ENTIRE INDUSTRY, TURNING TO EXPORT MARKET DUE SATURATION OF DOMESTIC MARKET. DOMESTIC FIRMS (INCLUDING SEVERAL U.S. SUBSIDIARIES AND LICENSEES) DOMINATE IN ALL TRADITIONAL EQUIPMENT SECTORS, MARKETING THROUGH FARMERS COOPERATIVES. IN RECENT YEARS SALES HAVE BEEN STRONGEST IN SOUTHERN AND INSULAR ITALY DUE GOI DEVELOPMENT PROGRAM FUNDING. IN 1972 REGISTRATIONS OF ALMOST UNCLASSIFIED

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ALL TYPES BUT POWER MOVERS INCREASED, HARVESTERS UP 4.8 PERCENT BY 2,247 UNITS AND ROTARY HOES UP 26 PERCENT BY 26,039 UNITS. POWER MOWERS, WHICH DECLINED BY 2.3 PERCENT IN 1972 AND 5 PERCENT IN 1971, ARE INDICATIVE OF ATTRACTIVENESS OF MULTIPURPOSE EQUIPMENT AS SALES LOSSES REPORTEDLY RESULTED FROM FARMERS SWITCHING TO MACHINERY CAPABLE NOT ONLY OF MOWING BUT OF TRANSPORTING AND ROUGH PROCESSING FEEDS. DEPENDENCE ON GOVERNMENT PROGRAMS FOR EQUIPMENT SALES AND DELAYS IN

IMPLEMENTATION OF FINANCE SCHEMES AND PROCESSING OF APPLICATIONS
 ALL SIGNIFICANT. EXECUTIVE OF OFFICINE FERABOLI, CREMONA
 (170 EMPLOYEES, \$500,000 ANNUAL SALES) WHICH REPUTED HAVE FORTY
 PERCENT ITALIAN LIVESTOCK EQUIPMENT MARKET AND ALSO PRODUCES
 HARVESTERS NOTED ARTICLE MAY 1972 SUCCESSO MAGAZINE THAT
 FINANCING PROJECTS ALL DELAYED, THAT GOVERNMENT AID FREQUENTLY
 GOES TO SMALL, UNECONOMICAL LIVESTOCK FARMS WITH TEN TO FORTY
 HEAD BUT SAID LIVESTOCK SECTOR INFLUENCED NOT ONLY BY SLOW
 GOVERNMENT ACTION BUT UNCERTAINTY FOR LIVESTOCK RAISING AND BY
 QUOTE MECHANIZATION LEVEL ALREADY ACHIEVED UNQUOTE. HE ESTIMATED
 COMPLETE COST LIVESTOCK BARN WITH ALL MILKING
 INSTALLATIONS AS EQUIVALENT \$700 PER HEAD. NO PRODUCTION
 FIGURES THIS INDUSTRIAL AREA AVAILABLE AND MACHINERY REGISTRATIONS
 ISSUED DO NOT COVER LIVESTOCK DIRECTLY RELATED GROUP. OBSERVERS
 FEEL THAT SATURATION LEVEL AND STRONG ITALIAN AND EC COMPETITION
 SEVERELY LIMIT U.S. POTENTIAL WITH FIELD MACHINERY AND THAT
 CHANCES ARE BEST WITH LIVESTOCK OR CROP RELATED FARM PREMISES
 EQUIPMENT. EMBASSY BELIEVES POTENTIAL EXISTS FOR SOME CROP
 PICKING MACHINES, E.G. GRACE PICKERS, BUT THAT BENEFICIAL COST-
 EFFECTIVENESS RATIO VITAL. WE UNDERSTAND, FOR EXAMPLE THAT U.S.
 TOMATO PICKERS SIMPLY TOO EFFICIENT FOR SMALL ITALIAN FARMS.
 IN SAME VEIN, LARGE MULTIPURPOSE FIELD MACHINERY WHEN ADJUSTED
 FOR UNEVEN TERRAIN TYPICAL OF MOST OF ITALY BECOMES EXTREMELY
 EXPENSIVE CONSIDERING RELATIVELY LIMITED TIME OF OPERATION EACH
 YEAR AND POSE AMORTIZATION PROBLEM. SMALL MULTIPURPOSE
 MACHINES, NEITHER SOPHISTICATED NOR EXPENSIVE, THAT SMALL FARMER
 CAN MAINTAIN AND REPAIR HIMSELF HAVE GREAT APPEAL.

4. FOREIGN TRADE - ITALY IS NET EXPORT OF AGRICULTURAL MACHINERY
 AND EQUIPMENT WITH A FAVORABLE BALANCE OF OVER EIGHT BILLION
 LIRE IN 1972. U.S. SHARE OF 22.4 BILLION LIRE IMPORT MARKET
 IN 1972 WAS 7.2 PERCENT. THE EC ACCOUNTED FOR 75.7 PERCENT.
 IMPORTS FIGURES (TRACTORS NOT INCLUDED) IN BILLION LIRE, SHARES
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IN PERCENTAGE:

	1970	1971	1972
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TOTAL	19.8	19.5	22.4
FROM EC	15.4	14.6	16.9
FROM US	1.5	1.5	1.6
EC SHARE	77.8	75.1	75.7
US SHARE	7.5	7.8	7.2

GROWTH RATES IMPORTS IN PERCENTAGES ARE:

	1970-71	1971-72
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TOTAL	- 1.7	14.9
FROM EC	- 5.0	15.8
FROM US	2.6	5.6

DEPARTMENT MAY ALSO WISH CONSULT DOCUMENT COM-73-100 10-5032,
MARKET SHARE REPORTS, ITALY, SITC 712.

5. RECOMMENDATIONS - DESPITE THE GENERALLY NEGATIVE SITUATION
REPORTED ABOVE, THE EMBASSY BELIEVES THAT A JEEP AT VERONA
IN COOPERATION WITH USDA EXHIBIT WOULD PROVE PROFITABLE IF
PARTICIPANTS FEATURED NOVELTY, LOW RELATIVE COST, MULTI
FUNCTION AND EASE OF MAINTENANCE. SHOULD ONLY TRADITIONAL ITEMS
WITHOUT SPECIAL ADVANTAGES BE EXHIBITED, WE RECOMMEND AGAINST
THIS VENTURE. THE EMBASSY DOES NOT ENVISION LARGE SALES,
BUT SALES AND NEW AGENTS APPOINTED SHOULD BE HIGH ENOUGH TO
SATISFY EXHIBITORS, WHOSE PRODUCTS MEET STANDARDS CITED.VOLPE

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